The Case of the Careless Subordinates

Is an actuary responsible for the work performed by others under his control?

RICHARD BOGGS recently found himself in an out-of-town conference room with his attorney, a court reporter, and nine members of the Actuarial Board for Counseling and Discipline (ABCD), along with the ABCD staff attorney. He had been the subject of a complaint by one of the clients of his own actuarial consulting firm, and after an investigation, the ABCD voted to conduct a fact-finding hearing.

He was invited to make an opening statement, in which he said that he had done nothing wrong. As the hearing proceeded, Mr. Boggs listened to the ABCD investigator, a well-respected actuary who practiced in the same practice area in which Mr. Boggs himself had earned his living for more than 20 years.

The investigator addressed issues of inquiry about Mr. Boggs' work for a particular client project. She described the conclusions in her investigative report, saying that, based on the available information, Mr. Boggs had signed a report that contained several major errors. The errors appeared to be the result of a lack of skill and care on the part of Mr. Boggs. The errors had resulted in significant financial losses for the client. When she had finished her presentation, the members of the ABCD and Mr. Boggs were given the opportunity to ask questions of the investigator.

Following this, Mr. Boggs was allowed to testify and offer evidence in his defense. The members of the ABCD asked Mr. Boggs to recall details of his firm's processes and to explain the errors the investigator had found in his work.

He tried to concentrate, but his mind kept trying to figure out how he had reached this place. He never could have imagined that he'd be in this chair, with all eyes in the room focused on him, and a court reporter taking down every word he said.

Back Story

After graduation with honors from his university with a degree in mathematics and some courses in business, he'd stumbled upon the actuarial profession. It seemed the perfect way to use his math background and apply it to problems in the business world. He understood that some actuaries made a very good living, too. So he took an entry-level position and applied himself to passing the actuarial exams.

He did well, too! Sure, he failed one or two exams, but that was better than most of the others who were taking the exams with him. Indeed, many of his colleagues gave up without finishing the exams.

His income rose quickly as he got his actuarial credentials. He got married and had three children. After about 10 years, he and two other colleagues started a consulting firm. They developed a following and established themselves in a market niche in which they could serve their clients at rates that were enough below the national firms that a steady stream of business had been developed.

After a few years, some disagreements developed between Mr. Boggs and his partners, so they decided to go their separate ways. The parting was amicable. Mr. Boggs purchased the partners' interests in the firm and continued its growth. He now had more than 20 employees. He was the only actuary, although a couple of his employees were now taking the exams themselves. The firm had been organized so that the work could be performed very efficiently. Standard calculations were computerized. His two

This case was invented to illustrate the risks of inappropriately relying on the work of subordinates when an actuary is responsible for ensuring that his or her work is in compliance with the Code of Professional Conduct. It is not based on any actual person or circumstance.

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actuaries-in-the-making supervised all of the internal work.

Boggs was now at the point where he could concentrate on bringing in the business and then meeting with the clients to present the results of his firm's work. Of course, he signed the work product. After all, he was the head of the firm and the only actuary. Still, he was sure he had trained his employees well, and he had complete confidence in their work.

His mind came back to the hearing. Yes, he admitted to the ABCD questioner, there had been some mistakes in some of the calculations his people had performed on the assignment in question. No, he didn't know just how the error had occurred, but after all, he hadn't been the one who made the error. Yes, it did have a major effect on the final estimates in his report, and yes, it did affect the numbers in the document that had been sent in to the regulators. Had he signed the report and the regulatory document? Why, yes, of course he had. He was the actuary, but he hadn't made the mistakes!

Moreover, this was the first time any of his clients had ever complained about his work to the ABCD. He must have signed several hundred reports since he started the firm more than 10 years ago.

One of the ABCD members asked him to describe the quality control processes his firm used. "Well, to be perfectly honest, it's not that big a firm," he replied. "We can't afford the overhead the big firms can. I can't have someone take the time to write out a quality control process. But I'm familiar with every job, and I know all of my employees. They're very well qualified and very capable. I have complete confidence in them and in our systems. I've stressed that they need to check their work, and, of course, I sign everything before it goes out. I won't sign something if the final numbers don't look right to me."

Mr. Boggs was told he could make a closing statement if he wished. He repeated what he'd said at the beginning. He was sorry these errors had occurred, but he stressed that he himself hadn't made them. The impact on the reported numbers was significant, but it hadn't been obvious when he looked at the final report and signed it. He would certainly consider ways to catch such errors in the future, but he didn't believe his actions had violated the Code.

Unexpected Result

As Mr. Boggs flew home, he reflected again on his day. It wasn't comfortable having his work looked at in this fashion, but he felt certain that he'd made the point that he hadn't made any mistakes himself. The work was done in accordance with the Standards of Practice; it just contained some errors. Furthermore, the errors were made by his employees, who weren't actuaries and therefore weren't subject to the Code themselves. Thank goodness this was now over!

A few weeks later, Mr. Boggs returned to his office and found a Federal Express package waiting for him. He opened it and saw the letterhead of the ABCD. "Good! This must be the letter saying they understand that these mistakes weren't mine! But what's this? The case is being referred to my membership organization with a recommendation that I be disciplined for violations of the Code of Conduct! But why?"

The letter went on to state that the ABCD did understand that the actual errors in calculation had been made by employees of Mr. Boggs' firm and not Mr. Boggs himself. However, Precept 1 of the Code of Conduct requires an actuary to "act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession." As the owner of his firm, the sole actuary, and the actuary signing all of the reports, Mr. Boggs is responsible for the accuracy of those reports.

Moreover, it's his responsibility to establish reasonable quality control processes for the work done by members of his staff. The ABCD found in this case that Mr. Boggs had not established reasonable quality control processes. The work product for this client wasn't indicative of competent actuarial work performed with appropriate skill and care. That the actual errors had been committed by members of Mr. Boggs' staff who weren't credentialed actuaries didn't relieve Mr. Boggs of responsibility for his work product. Therefore, the ABCD concluded that Mr. Boggs was in material violation of the Code of Conduct and referred its discipline recommendation to his membership organization for that organization to use as it determines the level of discipline to impose in accordance with its own disciplinary procedures.

Questions for the Reader:

- *What level of discipline do you believe is most appropriate in this situation?*
- *Would your conclusion as to whether Mr. Boggs was in violation of the Code and your conclusion as to the appropriate level of discipline, if any, change if the work product had been signed by Mr. Boggs' subordinate and not by Mr. Boggs himself?*
- *Would your conclusions change if Mr. Boggs were not the owner of the firm and if the owner had overruled Mr. Boggs on issues of quality control and employee training?*
- *Would your conclusion depend on whether the owner of the firm was an actuary himself (and thus subject to the Code) or not?*
- *The actual errors in calculation had been made by employees of Mr. Boggs' firm and not Mr. Boggs himself. However, in light of Precept 1 of the Code of Conduct, to what extent was Mr. Boggs responsible for carefully checking the work on which he was signing off? What quality control processes for the work done by members of his staff would be sufficient to satisfy Mr. Boggs' obligation under the Code?*

Sometimes errors are unavoidable, even when all professional standards have been carefully followed. However, the question of what level of oversight of subordinates is appropriate deserves careful consideration by every actuary who takes responsibility for work products that have been prepared by others under his or her supervision, especially if the subordinates aren't actuaries.